

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6603

BILL NUMBER: HB 1007

NOTE PREPARED: Jan 13, 2004

BILL AMENDED: Jan 12, 2004

SUBJECT: Property Tax Credits and Deductions.

FIRST AUTHOR: Rep. Orentlicher

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X
X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) *Rehabilitation Deduction:* The bill allows a property owner to determine the year in which a five-year residential rehabilitation property tax deduction period begins and allows a property owner to revive a deduction not taken for the assessment date in 2003 or an earlier year.

Reassessment Increase Credit: The bill provides a property tax credit, phased out over four years, based on the amount by which a tax increase resulting from a general reassessment exceeds 75%.

Circuit Breaker Credit: The bill provides a property tax credit to a homestead owner equal to the lesser of \$2,000 or the amount by which property taxes exceed a percentage of the owner's adjusted gross income. It specifies that the assessed value of the homestead may not exceed \$180,000, and that the owner must have owned the homestead for at least five years.

Effective Date: Upon passage; July 1, 2004.

Explanation of State Expenditures: *Rehabilitation Deduction:* Any additional rehabilitation deduction would reduce the state's expense for Homestead Credits. The reduction in Homestead Credit expense would be minimal under this bill. Homestead Credits are paid from the Property Tax Replacement Fund (PTRF), which is annually supplemented by the state General Fund. Any savings of PTRC and Homestead Credit expenditures would ultimately benefit the state General Fund.

Explanation of State Revenues: *Rehabilitation Deduction:* The state levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Rehabilitation Deductions:* Under current law, the residential property rehabilitation deduction equals up to \$9,000 AV per unit for five years. This deduction only applies if the total assessed value prior to rehabilitation did not exceed \$18,000 AV for a single-unit home, \$24,000 for a two-family home, or \$9,000 per unit for a dwelling with more than two units. The historic property rehabilitation deduction for structures at least 50 years old currently equals up to \$60,000 AV for single-family dwellings and up to \$300,000 AV for any other type of property.

These deductions may be claimed for five years beginning with the year in which the increase in AV from the rehabilitation occurs. For rehabilitation before 2004, this bill would allow a taxpayer who never filed, but qualified, for the deduction to still claim a full five years. In addition, for claims regarding rehabilitation that occurs after 2003, taxpayers would be permitted to file for a deduction in any year after they are qualified. The deduction would last for 5 years including the initial year in which it was filed.

These provisions could increase deduction levels for the above deductions for about 5 years by an unknown amount. The value of rehabilitation deductions is commingled with real property abatements on the auditor's abstract, making it impossible to quantify the current deductions. The total of all real property abatements plus rehabilitation deductions in 2002 was \$2.0 B AV. Real property abatements most likely make up the overwhelming majority of this aggregate number, leaving a smaller amount representing rehabilitation deductions.

Reassessment Increase Credit: Under this provision, the owners of homesteads whose property tax bills rise by at least 75% as a result of a general reassessment that takes effect after 2004 would be eligible for a credit against their property tax bills. (The next general reassessment is scheduled to take effect with taxes paid in 2010.) The amount of the credit would be equal to a percentage of the tax increase up to a maximum credit of \$3,000. The percentage and duration of the credit depend on the percentage increase in the tax bill and are summarized below.

Credit Percentage As a % of Tax Increase			
Tax Bill Increase	Year 1	Year 2	Year 3
Less than 75%	0		
75% - 149%	50%		
150% - 224%	67%	33%	
225% and Over	75%	50%	25%

The general reassessment that took effect with taxes paid in 2003 was unique in that it changed the methods used in determining the assessed value of real property and resulted in some large increases and reductions in tax liabilities for some homeowners. Assuming that there will not be any further major changes in reassessment methods and given the fact that annual adjustments to assessments will commence with taxes paid in 2006, it is unlikely that a future general reassessment would cause this magnitude of change again. This provision, therefore, should have minimal impact. The credit would cause a shift of property taxes from those taxpayers receiving the credit to all taxpayers through an increased property tax rate.

Circuit Breaker Credit: The bill establishes a circuit breaker credit of up to \$2,000 for homestead owners

to be applied against the net property tax bill. The credit would first apply to 2004 Pay 2005 property taxes. The credit would cause a shift of property taxes estimated at about **\$66 M** annually statewide beginning in 2005 from those taxpayers receiving the credit to all taxpayers through an increased property tax rate.

To qualify for the circuit breaker credit, a homestead owner must meet the following criteria:

- (1) The Indiana Adjusted Gross Income (AGI) of the homestead owner (or owners in the case of a married couple) does not exceed \$75,000.
- (2) The assessed value of the homestead does not exceed \$180,000.
- (3) The homestead owner has owned the homestead, or assumed liability for the payment of the property taxes on the homestead, at least 5 years before the assessment date.

The credit limits property taxes for the three income groups specified in the table below to an amount that does not exceed the percentage of AGI specified for that income group in the table. For instance, the property tax for a homestead owner with less than \$20,000 AGI could not exceed 5% of his or her AGI.

The property tax credit is equal to the lesser of \$2,000 or the result of the following computation:

$$[\text{Homestead Owner's Property Tax} - (\text{Homestead Owner's Indiana AGI} * \text{Percentage})].$$

The percentages depending on the homestead owner's Indiana AGI are listed in the table below.

Indiana AGI	Percentage
Less than \$20,000	5.0%
\$20,000 to less than \$50,000	7.0%
\$50,000 to less than \$75,000	9.0%

The estimate of annual property tax credits is based on simulations utilizing homeowner's property tax deduction and Indiana AGI data from tax year 2001 state income tax returns. The 2001 property tax and AGI levels are inflated to estimated 2005-2007 levels using recent annual growth rates in Indiana nonfarm personal income and average net property tax rates on homesteads. Homestead assessed values are imputed utilizing the property tax deduction data. As information on tenure of homestead owners is not present in the income tax return database, the credit estimate assumes that all homestead owners have been owners for at least 5 years. Thus, the actual credit total could potentially be lower depending upon the proportion of homeowners with less than 5 years tenure in their current dwelling. However, the extent of this impact is indeterminable.

State Agencies Affected:

Local Agencies Affected: County auditors.

Information Sources: Local Government Database; OFMA Income Tax Database, 2001; U.S. Bureau of Economic Analysis.

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